



**CITY OF RYE, NEW YORK
FINANCE COMMITTEE MINUTES**

July 18, 2005 – 7:00 p.m. – Employees' Lounge, City Hall

Present: Michael Caponiti, Fred Dunn, Norm MacMaster, David Mullane, Jono Peters, George Pratt, and Sal Samperi; City staff liaison Michael Genito.

Absent: City Council liaison Franklin Chu

Guests: None

Update on Proposed City Occupancy Tax

Michael Genito reported that the Mayor had announced at a recent City Council meeting that the City's proposed occupancy tax legislation had passed one house of the State Legislature, and that there does not appear to be any major barrier to passage. We might see the bill become law within a few months. Michael will keep the Finance Committee advised of any new developments.

2004 Financial Report, Auditors' Findings, and Management's Response to Findings

Michael Genito reported that the City's independent auditors had completed their audit and review of the City's Comprehensive Annual Financial Report (CAFR) for fiscal year ended December 31, 2004 and released their report on internal controls (otherwise known as a "management letter"). Michael noted that the Audit Committee, which consists of the Mayor and two City Council members appointed by the Mayor, had not yet met with Michael and the auditors to discuss the CAFR and management letter. He summarized the auditors' findings and the City's response to them as follows:

- The auditors recommended that in order to ensure that expenditures are supported by appropriate documentation containing all required approvals and are in compliance with existing law, the City Council perform an annual review of various, randomly selected expenditures. In response to this finding the City Comptroller recommends that the City's Audit Committee perform this function on a quarterly basis, and that the Audit Committee be expanded to at least five, but no more than seven members, selected from the community based on their background in accounting, auditing, or financial reporting. Michael noted that there are various recommended practices that could be used as a guide in re-developing the Audit Committee.
- The auditors noted that several capital projects appeared to be inactive and recommended that the City review all projects, and close those that are indeed inactive. The City Comptroller's response is that the City's Building and Vehicle Committee reviews all capital projects on a monthly basis, and that some projects may be awaiting the development of plans, permits, or actions by other organizations. Lack of staffing in key departments such as Engineering can also contribute to delays in project work.
- The auditors noted that the City Engineer can approve change orders and recommended that the City Council approve change orders. The City Comptroller's response is that the contracts and bids approved by the City Council by resolution

provide that the City Engineer is authorized to approve change orders. Michael noted that the City Council is fully aware of this and this allows projects underway to continue without the delay of awaiting the next City Council meeting for such change orders. Michael also noted that significant change orders, especially those that would exceed a project budget, are presented to the City Council for review and approval.

- The auditors noted that \$2.7 million of City funds were “on deposit in non-interest bearing checking accounts” and recommended that the City inquire to ensure it is receiving maximum interest on its funds. The City Comptroller’s response is that the funds were on deposit in accounts that were earning interest credit that was applied to the cost of City banking services (“compensating balance accounts”) and that the interest credit was equal to the City’s overnight interest rate received on other deposits. The City is active in the management of its deposits and investments, and regularly earns rates on overnight investments equivalent to the three-month U.S. Treasury bill rate.
- The auditors noted that the charges of the General Fund to the enterprise funds (Boat Basin and Golf Club) should be evaluated annually. The City Comptroller’s response is that the City engaged a third party consultant a few years ago to do an extensive and expensive analysis of the charges to these funds, and the amounts currently charged are those determined by that study. The cost of doing such a study annually outweighs the benefits to be derived.
- The auditors noted that some encumbrances were outstanding for more than one year and recommended reviewing encumbrances annually, closing those that are inactive. The City Comptroller responded that the Finance Department regularly reviews outstanding encumbrances throughout the year, investigating those that appear inactive for more than six months and those that have such low balances that a final payment may have been processed without closing the purchase order. The City Comptroller also noted that all departments are given a list of outstanding encumbrances in preparation for the annual independent audit, and the Finance department will close any that are not specifically identified by the department head as active. For additional controls, departments will be required to provide proof of an active order with a vendor for a purchase order to remain open at year-end.

Popular Budget Report

David Mullane, Norm MacMaster, and Michael Caponiti reported that they had met to discuss the popular budget report, and needed some guidance from the Finance Committee. The sub-committee recommended that the popular budget report should focus on sources and uses of funds; provide greater granularity (for instance, provide information on police, fire, etc. rather than “public safety”); should include a snapshot of the budget as well as perhaps three years of trends, and focus on percentages as opposed to dollars. The sub-committee recommended that a template be developed using the 2005 budget document as a guide, and when a final adopted 2006 budget document is published, the template could be applied to develop a 2006 popular budget report.

A healthy discussion took place on this subject, the major areas of which included:

- ◆ We should clarify the need for trend information, and if it is to be presented, for what period of time and in what format
- ◆ We should address sources, uses, reserves, and debt
- ◆ We should decide on the appropriate composition (breakdown) of information and level of detail to be presented
- ◆ We should consider starting as a basic communication document

- ◆ We should consider presenting the change in the distribution of sources and uses over time
- ◆ We should use laypersons' terms, such as "reserves" rather than "fund balance"
- ◆ We should present enterprise operations (Boat Basin and Golf Club) separately from governmental operations, emphasizing that enterprise funds are self-supporting and in fact reimburse governmental operations with service charges
- ◆ We should develop a document that can be produced by the Finance Department with current resources

The Finance Committee concluded that Committee members should share their suggestions and views with each other through e-mail. The sub-committee will compile these and other ideas, and after discussion with the City Comptroller, continue to develop the popular budget report. The sub-committee will report on their progress at the next Finance Committee meeting.

Financial Trends Report

The Finance Committee concluded that there was insufficient time to review the Financial Trends Report and present recommended changes, if any, to the City Comptroller in time for the 2006-2010 Financial Trends Report. The Committee decided to continue their review of this document with the goal of making such recommendations for change in next year's version. Norm MacMaster noted that he saw a nexus between the rise in elastic revenues and rise in expenditures, and the impact a decrease in elastic revenues could have on property taxes. Norm commented that while both are noted in the Financial Trends Report, the City Comptroller should consider highlighting this nexus in future reports.

Future Finance Committee Agenda Items

The following items will be included in 2005 Finance Committee agendas:

- ❖ Development of a policy on the use of variable rate debt.
- ❖ Philosophical discussion as to when debt should be issued.
- ❖ Recommendation of a change in New York State law to increase the maximum maturity of bond anticipation notes from five years to the probable period of usefulness ("PPU") of the underlying assets.
- ❖ Discussion regarding annual budget calendar.

Next Finance Committee Meeting

The next regular meeting of the Finance Committee is tentatively scheduled for Monday, August 8, 2005 at 7:00 p.m. in the Employees' Lounge of City Hall. Chair Jono Peters asked that Committee members respond to the meeting reminder that will go out about a week before the meeting, and that we cancel the August meeting if work is still being done on the popular budget report and there is no other significant business to be discussed.

Adjournment

Having no further business, the meeting adjourned at 8:33 p.m.

Respectfully submitted,

Michael A. Genito